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A Short Qualitative Exploration of the Reporting and Use of Non-Financial Data in the Context of the Fitness Check of the EU Framework for Public Reporting by Companies

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Content

Executive Summary

In the EU, certain companies are required to disclose non-financial information, which is generally related to environmental, social and governance aspects, along with their traditional financial disclosure. The corresponding Directive 2014/95/EU (commonly referred to as non-financial reporting directive, or NFRD) concerns approximately 6,000 companies and groups across the EU. In 2019, the European Commission launched a “Fitness check on the EU framework for public reporting by companies”[1], which results were published in November 2019. The Non-Binding Guidelines on Non-Financial Reporting[2] were up-dated in June 2019, with regard to the reporting of climate related information.

In this context, DIW Berlin executed a mini-research project to contribute to the above mentioned fitness check; through a targeted literature review, exploring the consistency, quality and availability of ESG data across different types of entities and member states. This was complemented by a small survey, and a few longer interviews to get some additional qualitative information in relation to the use of and demand for ESG data by investment professionals.

The results of the various studies discussed in the literature review are not easily comparable, as they are using different definitions, scope and levels of aggregation. However, the variety of approaches is useful to inform the design of the required systematic assessment of reporting practices across all EU member states, which should be pursued by the European Commission.

Regarding reporting quality, a survey across various European member states finds that only 20% of the 80 top-listed companies included a specific climate change policy section in their reports. 80% disclosed GHG emissions, 30% reported GHG targets. TCFD-aligned disclosure[3] and climate-scenario analysis are still the exception and human-rights related disclosure turns out in various reviews of different national reporting practices to be least extensive and concrete. Some of the reviewed reports point out that effective disclosure is not just about indicators but also about context, which should be considered when evaluating disclosure quality and effectiveness.

The evidence on changes in reporting practice after the transposition of the NFRD is sparse as of the writing of this review. Initial findings suggest little change in Germany and significant increases of non-financial reporting starting from a low base-line in Italy and Poland. In this

[1] https://ec.europa.eu/info/publications/191107-fitness-check-supervisory-reporting_en

[2] https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en

[3] The Task Force on Climate-Related Financial Disclosures (TCFD) was set up in 2015 to develop voluntary, consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders. The first recommendations were published in 2017.

respect, it must be outlined that different countries implement the directive differently and exemptions to the directive's scope and in particular the degree of precision in the reporting requirements differ significantly between EU member states.

15 finance professionals participated in the survey, including 4 ESG specialists, 4 from strategy/business development, 2 asset managers (fund management), 2 senior managers, 2 people working in financial reporting and 2 sustainability consultants. 60% of our respondents consider ESG rating agencies as important data source for ESG data, Global Reporting Initiative (GRI) and TCFD are confirmed as most useful reporting framework by 73-80% of the participants.

Key drivers for ESG data availability according to the participants are increased investor engagement, the NFRD and its non-binding guidelines and the TCFD recommendations. Reputational risk is seen as number one driver (73%) of the demand for ESG information by investment professionals, followed by a range of other drivers which around 50% of participants considered important.

Asset management (fund managers) is named by far the most frequently (80%) as main user of ESG/carbon data, while on the other hand all major financial firm functions mentioned in the survey are confirmed to also use it by between 20 and 47% of the respondent. The use of ESG data hence seems to be spread across firms' different departments/functions.

No single class/type of data stands out as being more important than others, but it may be noteworthy that forward looking climate transition risk assessment features in the top group (57%). The majority stated that carbon emissions are incorporated in their firm valuation models (47%).

The number one driver of the materiality of carbon emissions according to survey participants was climate regulation (9 out of 15 or 60%), followed by reputational risk (6 out of 15 or 40%). Only 20% consider ESG information about smaller companies as important or very important.
Due to the qualitative character of the survey, one key contribution consisted in the identification of follow-up (research) questions, which are discussed in relation to each of the survey themes.

Introduction

In the EU, large public-interest entities with more than 500 employees are required to disclose non-financial information, which is generally related to environmental, social and governance aspects, along with their traditional financial disclosure. Amending directive 2013734/EU (the so called "accounting directive"), Directive 2014/95/EU (commonly referred to as non-financial reporting directive, or NFRD). Public interest entities means listed companies, banks and insurance companies, as well as any additional categories of entity specified at the level of member States. This concerns approximately 6,000 companies and groups across the EU.

The directive defines the reporting scope only in broad terms and in particular, in terms of mode and place of reporting, the directive leaves a lot of flexibility to the reporting entities. Against this background, the European Commission drafted non-binding guidelines in order to support companies in particular as regards their environmental and social disclosure.

In addition, there have been further developments in the past few months. The European Commission launched a "Fitness check on the EU framework for public reporting by companies"[4], which results were published in November 2019. As part of the Sustainable Finance Action Plan they furthermore updated the Non-Binding Guidelines on Non-Financial Reporting[5] in June 2019, specifically with regard to the reporting of climate related information.

In this context, DIW Berlin executed a mini-research project to contribute to the above mentioned fitness check; through a targeted literature review, exploring the consistency, quality and availability of ESG data across different types of entities and member states. This was complemented by a small survey, and a few longer interviews to get some additional qualitative information in relation to the use of and demand for ESG data by investment professionals. The focus lies on climate-related/ carbon data. Due to the qualitative character of the survey, one key contribution consisted in the identification of follow-up (research) questions, which are discussed in relation to each of the survey themes.

The results are presented in this short report. We begin in Section 1 with the literature review, Section 2 contains the results of the conducted survey. Additional information can be found in the annex.

[4] https://ec.europa.eu/info/publications/191107-fitness-check-supervisory-reporting_en

[5] https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en

1 Literature review of reporting practice in the context of the non-financial reporting directive

The aim of this short literature review was defined as analysing the emerging reporting practices in the context of the non-financial disclosure directive and its different national transpositions, with a particular focus on consistency/quality and availability of ESG data. As far as possible, the literature has been assessed with a view to understanding eventual differences between different types of firms and across EU member states. We evaluated studies that cover companies throughout Europe as well as studies that focus on companies from specific European countries.

1.1 Quality of disclosed ESG data and information and differences across different ESG dimensions

AFM (2018), Netherlands Authority for the Financial Markets, points out that relevant non-financial reporting is not only about reporting on specific indicators but also on the context without which it is difficult to evaluate the information provided. Their review shows that the context is not always included, and non-financial information is often reported in a non-specific manner, in particular as regards human rights and the combating of corruption and bribery.

"One example is a company in the auto sector that addresses the environmental aspects of its own business operation, but does not mention the effects of its current business model on the environment. Another example is a company that does not report any social or community aspects although it is involved in mining in various parts of the world with all the local effects and risks that this entails. " (AFM, 2018)

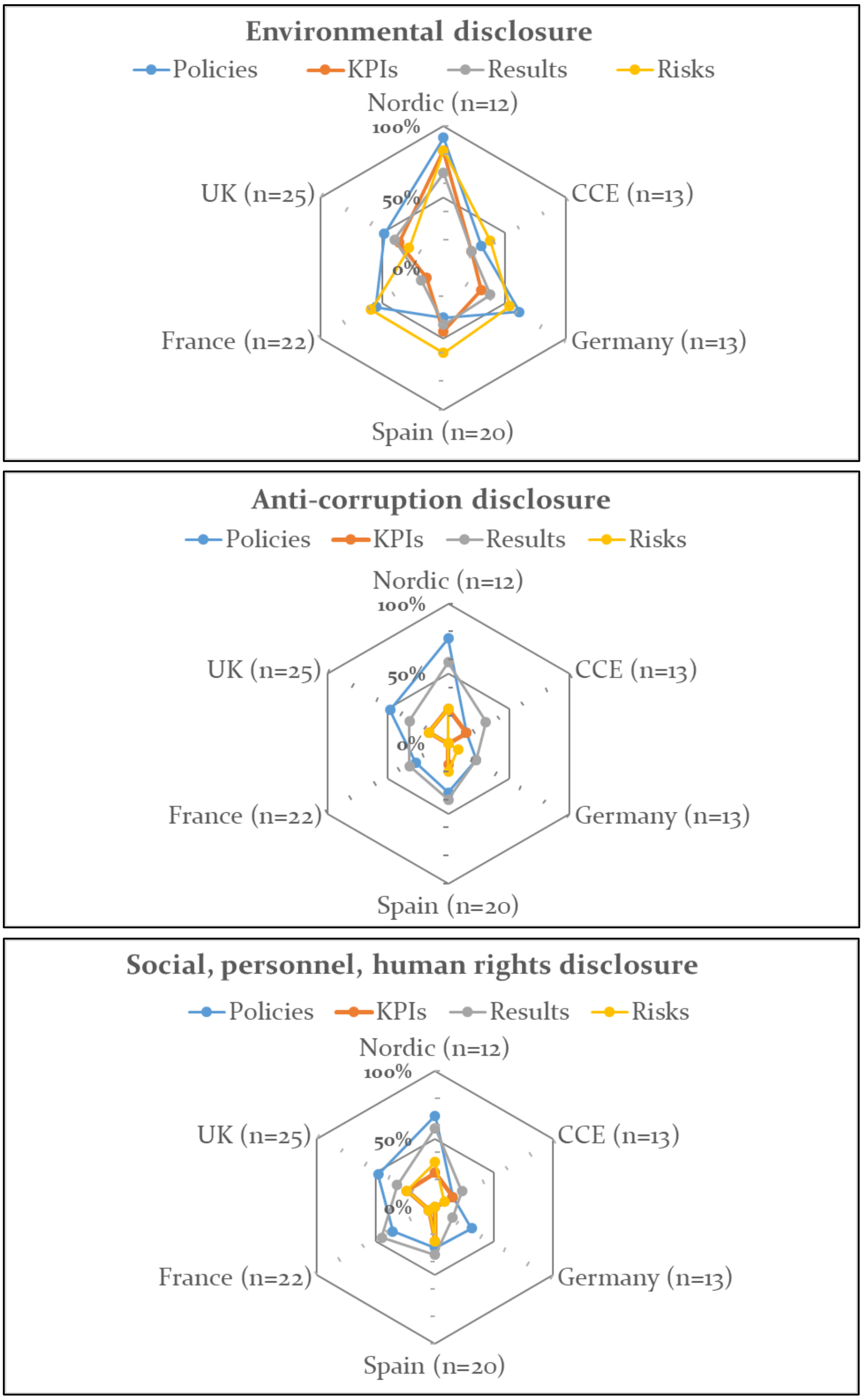
Pwc (2018) comes to a similar conclusion, referring to a lack of "integration" of impacts (on the different content areas) into the "narrative" and a need for better explaining the "wider significance" of the areas for the activities of the firm. Therefore, the literature will be first examined with regard to the quality of the reporting. In the context of climate-related disclosure, quality can for example mean the differentiation between emission scopes or the alignment of an emission target with a certain temperature target. However, also all of the four other reporting areas (social, personnel, anti-corruption, human rights) are included in the review.

The Alliance for Corporate Transparency (ACT) analyses non-financial disclosures of 105 companies with different sizes from three sectors (energy, health care, ICT) and six European regions. Around 60% of the companies indicated the GRI or national standards as reference framework. The vast majority of the firms stressed the importance of ESG related issues, however, the environment related information of only half of the companies were clear and concrete (<30% for social and anti-corruption matters). Almost one third of the companies did not outline ESG risk associated with their business model. They also discovered a positive correlation between the quality of the reporting and the company size (ACT, 2018).

In current practice in the energy sector, there is especially a lack of reporting on short and long term horizon (reported by only 26% of the companies) and on the transition to a below 2° scenario (reported by 21%). More than the half of the companies have a climate target, a remarkable proportion of the of the energy and mining companies (71%), but considerably less align it with the Paris Agreement.

Almost 80% report their GHG scope 1 emissions and the aggregated GHG emissions, while only slightly over the half disclose their scope 3 emissions and emission intensity. With respect to climate-related issues, Nordic companies reported specific information on their policies and their targets the most often (67%), followed by Germany (62%). The provided information of the Central and Eastern European Countries (CEE) were the least clear and specific (8% of the companies), according to ACT (2018). The results are visualized in **Figure 1**.

Figure 1: Disclosure across regions in comparison[6], numbers in brackets indicate sample size



[6] While the analysis by ACT presented above allows for a comparison between regions/countries, it has to be pointed out that the sample size of their assessment is well below that of the studies discussed in the following paragraphs, resulting in this case in a lower level of representativity.

Only 20% of the 80 top-listed companies included a specific climate change policy section in their reports

Carbon Disclosure Standards Boards (CDSB) and Carbon Disclosure Project (CDP) examined environmental related disclosure practices of the 80 top-listed European public companies falling under the scope of the NFRD (CDSB and CDP, 2018a). In a related study, they provide a snapshot of a sub-sample of 30 of these 80 firms (CDSB and CDP, 2018b), briefly characterizing each firm's reporting practice individually. They determined a gap between environmental and climate related reporting. While more than two thirds of the companies published a specific environmental or sustainability policy/ strategy section, only 20% prepared a specific climate change policy/ strategy section. As also stated by ACT, reporting of non-financial Key Performance Indicators (KPI), seemed to be more frequent the higher the market capitalization of the companies (but the sample size and methodological set-up does not allow for a causal interpretation). Further, more than 80% reported greenhouse gas emissions, while only around 40% published GHG emission targets. In contrast to France and the UK, where more than two thirds of the companies disclosed progress against non-financial KPIs, only 38% of the Germany companies reported progress against their non-financial KPIs.

80% disclose GHG emissions, 40% report GHG targets

Several reports focus on the non-financial reporting practice of companies of specific countries. The Dutch Authority for the Financial Markets[7] or in Dutch, Autoriteit Financiële Markten, (AFM, 2018) showed for the Netherlands that "companies do not systematically report on the effects of [companies on] [8] climate change. Only 14 of the 89 companies, all of them are falling under the NFRD (approximately 16%), devote attention to the TCFD recommendations and apply them to some extent." The reporting on the effects of climate change on companies in terms of risks and opportunities is described as "minimal". They found that "Employee-related and environmental aspects received the most attention, with human rights, anti-corruption and bribery receiving the least." Almost half of the companies reported voluntarily on the UN's sustainable development goals (SDGs). An overview of the findings is provided in Figure 2.

[7] More information about AFM's sustainability related activities can be found at their website @ https://www.afm.nl/en/professionals/onderwerpen/duurzaamheid

[8] The formulation „effects of climate change" could be misleading. AFM (2018) refer to "the effects companies have on climate-related and environmental issues. This concerns direct or indirect emissions of greenhouse gases, energy use, waste processing and water use."

TCFD-aligned disclosure and climate-scenario analysis are still the exception

Finansinspektionen, Sweden's financial supervisory authority conducted a survey of sustainability-related reporting of 25 Swedish firms and 42 groups from different sectors (Finansinspektionen, 2018). Only four out of the sample mentioned climate-related scenario analysis and around a quarter reported their total GHG emissions, only a few distinguished between different emission scopes. They highlight further that there is a general lack in transparency and comparability of the non-financial disclosures (FI, 2018). KMPG (2019) finds a deficiency of human rights reporting for Swedish firms[9] (with 13% of the report not referring to human rights at all), "while a majority of the companies do report fully and efficiently in the areas of personnel". The share of companies from their sample reporting on the five areas specified in §12 of the Swedish law are displayed in Figure 3. The majority of companies in the Swedish sample do no forward-looking sustainability targets in their disclosures and only 35% report risks for all five areas (KPMG, 2019).

CONSOB (2018) assessed best practice in materiality reporting in Italy based on "involvement of the internal bodies and/or the top managers [...], and involvement of stakeholders" and the characterisation of the processes used for these engagements. In terms of the variation across different types of firms, they find that "Best practices in the materiality analysis are more frequent among largest companies (involving 53% of Ftse Mib, versus 19% of Mid Cap, 10% of the Star and 3% of small firms) and service firms (32%, followed by 20% in the financial sector and 15% in the industrial sector)." These findings are in line with results that were mentioned above. Almost three quarters of a sample of 222 German companies surveyed by Global Compact and Econsense (2018) reported on environmental indicators, although DGCN does not further specify which indicators. However, only one fifth to one forth (depending on the company size) included the supply chain. Beyond the environmental dimension, the situation is similar to that in the Netherlands, with human rights reporting lagging behind the other dimension in terms of policy, results and KPIs (see Figure 2 for the more representative sample, and Figure 3); in Sweden human rights comes also last, but is reported more frequently than in the other countries.

[9] The analysis was based on a random sample of 130 firms out of those 2300 firms above the applicability threshold of the Swedish law (proposition 2015/16:193 which entered into law on 1 December 2016). Out of this sample, only 112 sustainability reports were available to KPMG, which form the basis of KPMG's analysis.

That point was also confirmed by pwc's (2018) assessment of the 30 earliest reporters listed at FTSE 350, where impact reporting on the five "content areas" was lowest for human rights (20%) and anti-corruption/bribery (17%), with the other three areas ranging between 90 and 100%.

Figure 2 shows the share of reporting firms for the five dimensions and per type of reporting (for the Netherlands), while **Figure 3** captures the situation for Sweden and **Figure 4** for Germany. While the Dutch report includes the share of firms with KPIs in the 5 areas, the Swedish report includes instead the category "follow-up" in addition to the results indicator, to capture whether insights (through results) lead to follow-up activities or not. The German report does not cover results or a "follow-up" category.

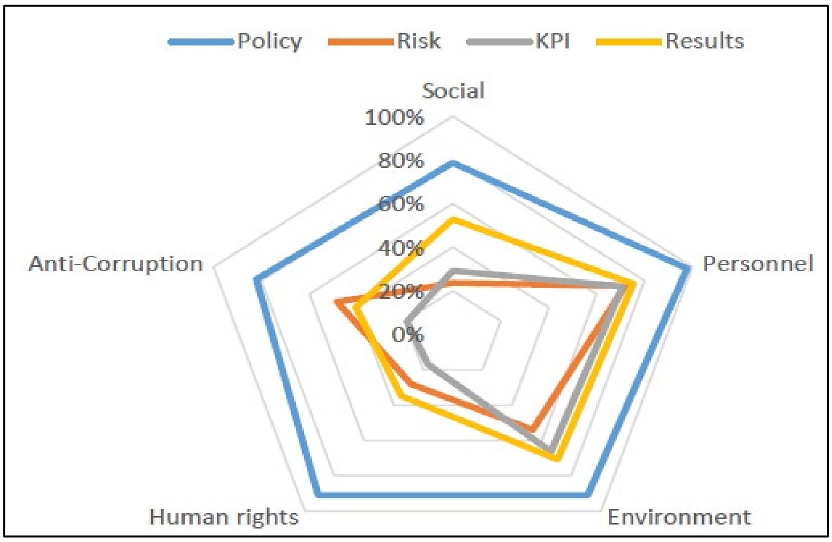


Figure 2: Share of Dutch companies under the scope of the NFRD-implementing decree that are reporting on policy, risks, KPIs and results (Source: AFM, 2018)

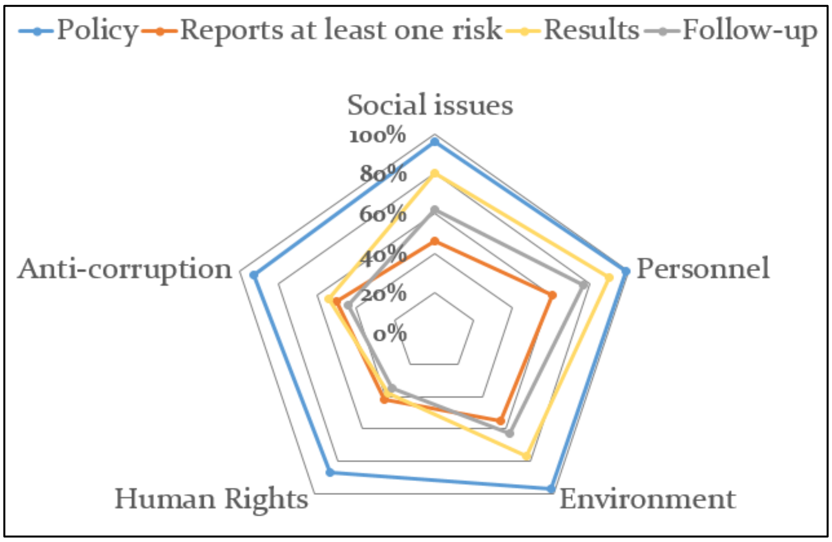


Figure 3: Share of Swedish companies under the scope of the NFRD-implementing law reporting on non-financial aspects (Source: based on data from KPMG, 2019)

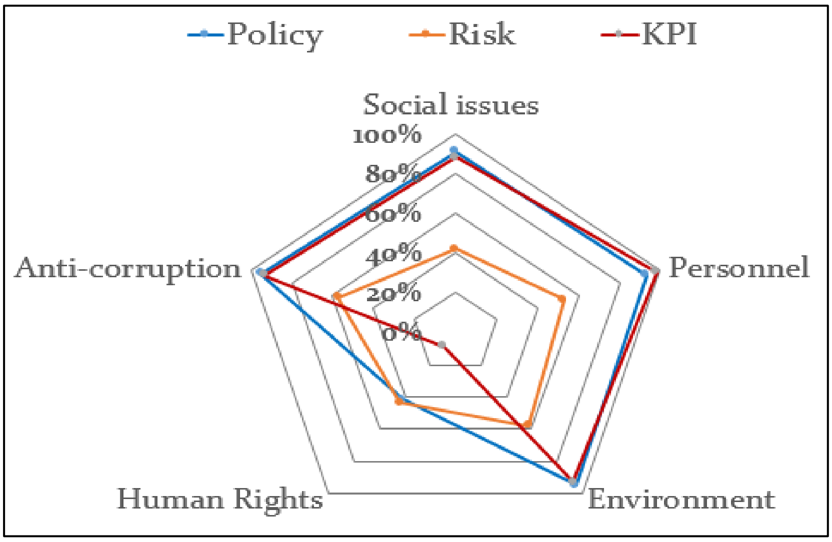


Figure 4: Share of German companies under the scope of the NFRD-implementing law reporting on non-financial aspects (Source: based on data of Global compact and Ecosense, 2018)

1.2 Did the directive change reporting practice?

CDSB and CDDP found no direct evidence in their analysis of 80 top-listed European public companies falling under the NFRD that the publication of the Commission´s non-binding guidelines were having a positive impact on disclosure in alignment with the recommendations of the guidelines or TCFD (CDSB and CDP, 2018a). Global Compact and Econsense (2018) conducted a survey among German companies[10] to evaluate the reporting practice development after the introduction of the CSR-RUG, the German NFRD-implementing law. 111 out of the 212 analysed firms are publicly listed and 90% of all German capital market orientated firms[11] published non-financial information in various formats prior to the CSR-RUG. More than half of the capital market orientated companies that participated in an online survey (in total 81) answered that they had not changed or had done only minor modification in their reporting practice as a result of the German law. The remaining companies stated a large or a very large change. 31% do not consider making any changes in their reporting practice in future, while one third aims to disclose more comprehensively and one fifth to increase the number of indicators. Only 7% planning to report their progress. However, the majority of the online survey participants experiences an increased awareness and appreciation of the supervisory board for sustainability issues than prior to the German CSR-RUG, although they do not see the law as main driver for sustainability (Global Compact and Ecosense, 2018).

Sparse evidence on changes in reporting practice after the transposition of the NFRD – initial findings suggest little change in Germany and significant increases of non-financial reporting in Italy and Poland

Significant increase of non-financial reporting could be found in Italy. The number of firms issuing a non-financial statement increased from 83 (two had already voluntarily published a report on non-financial information in 2017) to 151 in 2018. Regarding the materiality analysis, 73% of the FTSE MIB[12] firms had already carried this out in 2017 on a voluntary basis (CONSOB, 2018). In Poland, a survey with 87 reporting experts from companies falling under the scope of the NFRD-implementing law showed that more that 50% of the respondents issued non-

[10] According to the study, 487 German firms fall under the scope of the CSR-RUG out of which 238 are capital market oriented. The study assessed non-financial reports of 212 capital market orientated versus 43 non-capital market orientated companies

[11] Based on the online survey with a sample size of 81.

[12] FTSE MIB is the benchmark stock market index for the Italian national stock exchange.

financial reports for the first time, while almost 30% stated that they had reported non-financial information before on a voluntary basis (Biernacki, 2019). Thereby, first results indicate that a change in the reporting practice differs between countries and presumably the type and size of companies.

1.3 Differences in the Directive's national transposition, scope and coverage

CSR Europe and GRI (2017) provide a comprehensive overview of the member state implementation of Directive 2014/95/EU. Their report shows that national-level transposition differs in the company scope, the disclosure format or in the non-compliance penalties, among others, which may partly be related to differences in business practices across the European Union.

Different countries, different interpretations of and exemption to the directive's scope and required precision of reporting

Frank Bold (2017) emphasizes that in Germany, the UK, France and Italy, the national implementation did not provide further clarity at passages where the Directive is not clear about its intention. In addition, the mentioned countries did not expand the scope of the Directive. Nordic countries, like Denmark and Sweden, enhanced the scope compared to the Directive. There are no special KPIs mentioned in the Directive and the states took different approaches. On a positive note and unlike Germany and the UK, Italy and France did not only replicate the ESG factors from the Directive but prescribe more details or specific factors to report (Frank Bold, 2017). Italy formulated specific reporting requirements for each ESG factor coming "close to setting our specific KPIs by which each ESG factor can be assessed". France goes even beyond this approach by more and more specific reporting requirements, for example "'the impact of the company's activities as well as its services and products on climate change'" (Frank Bold, 2017). In total, the French provisions list 42 specific aspects/indicators (in line with the "Loi Grenelle II") against which to report.

With almost all member states including exemption clauses (in line with the provisions of the NFRD), German NFRD-implementing law (CSR-RUG) for example includes exemption clauses which refer, a/o, to a vague notion of disadvantage, which a company could incur if it were to report the required non-financial information. What exactly constitutes such a "disadvantage" would still need to be clarified (Deloitte, 2019).

The Italian "Legislative Decree no. 254" of 30 December 2016, defines the reporting scope in line with the directive while adding energy on top of the other five areas. The company scope is limited to "large public interest entities" (Deloitte, 2019) while similar to Germany, "firms included in the non-financial statement prepared by their parent company can be exempted." Accordingly, the decree's scope covered 149 out of the 228 Italian firms with ordinary shares listed on the main exchange (at the end of 2017), with 70 firms outside the scope of the Directive due to their size. In Poland, 167 out of 470 listed companies fall under the scope of the national law (Biernacki, 2019).

1.4 Where/how do companies report their ESG disclosures?

Half of the reporting companies included in the ACT report placed their ESG disclosure in the annual management report, the remaining published a separate report. (ACT, 2018).

None of the German companies examined by CDSB and CDP provided the climate related disclosure within their management report, as the German law allows companies to alternatively publish it on their website. In the UK, almost one third did so. CDSB and CDP (2018a) recommend removing the possibility of publishing the non-financial information outside the management report (CDSB and CDP, 2018). In France and in the UK, it is required to include the non-financial information statement in the annual management report rather than publishing it separately and with a time lag like in Germany or Italy (Frank Bold, 2017).

Out of the 212 capital market orientated companies evaluated by DGCN, one third published an independent non-financial report, while 40% included the separated non-financial report outside the management report. In only 3% of the cases it was included in the management report, six out of seven of these companies were DAX companies. The average length of the non-financial reporting of all companies amounted to 17 pages. The structure was mainly orientated on company-specific action areas, 28% followed the structure given by the German CSR-RUG (DGCN, 2018).

In Italy, *"of the 151 firms publishing the NFS in 2018, [...] 139 companies have only published the information required by the Decree, either in a stand-alone document (called Sustainability Report in 53 cases) or into the management report; six firms have published an Integrated Report (IR), embedding the NFS; two issuers have published both an Integrated Report and a separate Sustainability Report (SR); one firm has released an Integrated Report and a Sustainability Report as a NFS; three companies have circulated both a NFS and a Sustainability Report"* (CONSOB, 2018).

The Swedish applicable accounting law prescribes that the sustainability report shall be included in the Administration report (in Swedish: "förvaltningsberättelse") and otherwise referenced therein. KMPG (2018) found that most commonly the sustainability report was included in the financial statement yet separate from the management report.

In Poland, 35% of firms disclosed the non-financial information in a separate report and 65% inside the management report (Biernacki, 2019). Thus, there are major differences between the countries, also depending on national implementation of the Directive.

1.5 Further research, open questions and key issues

ACT (2018) concludes that with respect to climate change, legislation must further clarify disclosure requirements in line with TCFD recommendations of companies' long-term transition plans to a carbon neutral economy. It is not described in sufficient detail which information and KPIs must be reported by the companies (ACT, 2018). Furthermore, the NFRD could be complemented with the concept of forward-looking information encouraging the identification of opportunities arising for the business from natural capital and climate change. To achieve the desired outcomes of generating information to better inform allocation of capital in support of a more sustainable economic system, it will require a significant step change in the effectiveness of disclosure and a mandatory implementation of the 11 TCFD recommendations (CDSB and CDP, 2018a).

The definitions of terms or concepts, like "materiality" or the description of the business model are not perfectly clear or transparent and accordingly, inconsistencies in reporting between companies and across jurisdictions are likely to occur. Providing clarity on relevant KPIs and their measurement would enhance comparability.

The Directive could be further enhanced by a clarification of how non-financial disclosure should reference aspects of financial reporting (Frank Bold, 2017).

CSR Europe and GRI (2017) see the Directive as the beginning of the activities around the topic of non-financial disclosure and discuss the extension towards SDG reporting.

DGCN (2018) also stresses the lack of clarity as regards terminology and the variety of ways in interpreting it in the German CSR-RUG. Further they see difficulties regarding the availability of indicators four months after the balance sheet date, especially for environmental matters, and see potential for improving the auditing process (DGCN, 2018).

DGCN (2017) evaluates the early impact on the relevance of non-financial reporting within German companies and detect an increased awareness. However, they criticize that members of the supervisory boards did not consider the new reporting regulations at an early stage and are not able to adequately assess the consequences (DGCN, 2017).

The greatest challenges incurred by the evaluated capital market orientated companies related in particular to limited internal resources, the auditing process of the report, the availability of pertinent indicators and the determination of risks (DGCN, 2018). To sum up, the Directive can serve as a basis for an improved non-financial reporting, however, a further development, for example with respect to clarity, is crucial.

The results of the various studies discussed here are not easily comparable, as they are using different definitions, scope and levels of aggregation. But the variety of approaches is useful to inform the design of the required systematic assessment of reporting practices across all EU member states, which should be pursued by the European Commission.

2 Survey and interviews - investors use of and views on ESG data

15 finance professionals participated in the survey, including four ESG specialists, four from strategy/business development, two asset managers (fund management), two senior managers, two people working in financial reporting and two sustainability consultants. The participants' institutions varied in size (measured by assets under management) from 350 million to 2 trillion. The participation rate was 44%, which is extremely high and underlines that those who started looking at it considered the survey as relevant. The evaluation of this small survey arises a number of follow-up issues and questions, which are listed in bullet points in the end of each subsection, that could be analysed by representative studies. The full survey questions and results are included in the annex.

The questions and answers in detail

ESG data sources

60% of respondents consider ESG rating agencies as most important data source for ESG data, while on the other end none of the participants used data from mainstream rating agencies and only two used publicly disclosed quantitative data, with all other main sources/providers of ESG data ranging in between.

> *60% of respondents consider ESG rating agencies as most important data source for ESG data*

In the interviews, the use of data from ESG rating agencies was confirmed, yet one fund manager pointed out that this data is not taken at face value but verified and compared to other data sources. Even though the interviewed investor has employed ten sustainability analysts (in addition to their 40 mainstream analysts), they do not use individual data points for individual firms from their ESG disclosure. This is just done in single cases, where this data is important for the specific company and its valuation. Still, harmonised disclosure at firm level is seen as crucial, as it will increase the quality of the data provided through ESG rating agencies. A sustainability data provider points out that they use disclosed data directly, which is then included in the company´s score. However, the sustainability data provider emphasized that 95% of all carbon data is estimated and not based on comprehensively reported data.

The interviews also showed that besides algorithms used for "harvesting" firms, web-based information for ESG-relevant information, client engagement and direct interaction with firms is very important in informing the ESG assessments.

Follow-up questions:

- Could a representative study confirm/reject the important role of ESG rating agencies?
- Which data sources are used by ESG rating agencies?

View on and use of reporting frameworks

The GRI and TCFD reporting frameworks were confirmed as most useful reporting framework by 73-80% of the participants. In the interviews, questionnaires were described as "inefficient" Reporting frameworks might help companies understanding their ESG challenges.

The GRI and TCFD reporting frameworks were confirmed as most useful reporting framework by 73-80% of the participants.

Follow-up questions:

- Can GRI and TCFD be confirmed by user numbers as most useful reporting frameworks?
- How dynamically is the use of GRI and TCFD reporting formats evolving? Can this be linked to regulation?

Key drivers for ESG data availability

The participants referred to an increased investor engagement, the NFRD and its non-binding guidelines and the TCFD recommendations as main drivers for ESG data availability. Today, *"the transparency of sustainability data is where financial data was 20 years ago" (*interview participant). Still, according to the interviews, data availability has strongly improved over the last 3-4 years in particular.

The participants referred to an increased investor engagement, the NFRD and its non-binding guidelines and the TCFD recommendations as main drivers for ESG data availability.

One of the participants emphasized that there are many companies that disclose non-financial information for the first time due to the implementation of the regulation. Hence, it is seen as main driver for data availability. In addition, the confrontation of firms with increasing expectations of the investors and the pressure of (regulated) down-stream customers who want to understand the ESG-risks in their supply chain can also contribute to a better data availability. Another participant stated that although the regulators are lagging behind the market development, regulation, especially at EU level, has a crucial role for data availability. At the national level, the Scandinavian regulators and financial institutions, and the French "Art. 173"[13] are giving positive examples, while Germany is stated as negative one.

Follow-up questions:

- Does investor engagement differ between different types of institutions?
- Which role does ESG play in engagement?
- Can we measure the effects of investor engagement empirically?

Demand for ESG information by investment professionals

Reputational risk is seen as number one driver (73%) of the demand for ESG information.

Reputational risk is seen as number one driver (73%) of the demand for ESG information by investment professionals, followed by a range of other drivers which around 50% of participants considered important. ESG is seen as material, and specific ESG-related events can have a strong impact on the bottom-line. Beyond the reputational risk, there are client requests, in particular institutional clients that foster the demand of ESG information. Only recently, as in 2019, there is a sudden boost in demand for ESG investing from private clients. A third driver is the broader societal trend, with the "Friday for Futures" movement and, finally yet importantly, the competition for talent was mentioned, as many of the younger prospective employees consider the ESG performance of their employer.

Follow-up questions:

- Can we measure the effects of investor engagement empirically?
- Can we confirm this individual observation about the increased interest by private clients in ESG reporting?
- What exactly is driving the recent boost of interest in and demand for considering ESG explicitly in investment decisions? Which (policy) measures could sustain this development?

[13] In France, the disclosure obligations are set out under Article 173 of France's law on "energy transition for green growth"

Users of carbon/climate and ESG data

Asset management (Fund managers) are named by far the most frequently (80%) as users of carbon/ climate and ESG data, while on the other hand all major financial firm functions (i.e. different activities such as fund management, strategy, CSR, etc.) mentioned in the survey (see p.30) are confirmed by between 20 and 47% of the respondent to also use it. The use of ESG data hence seems to be spread across firms' different departments/functions. Although the Fund manager is seen as main user, one participant emphasizes that this is not mainstream in Europe yet. The Scandinavian countries can be seen as pioneers.

Asset management (Fund managers) are named by far the most frequently (80%) as users of carbon/ climate and ESG data.

One participant described in the interview that ESG data is used across the investment firm since the senior management and the product side like to be seen as part of the solution.

In another interview, it became clear that while even only around 10% of assets under management of the more sustainability-orientated investment firms are "compliant" with some "sustainability requirements", new products are increasing sustainability orientated and overall the share of assets managed and subject to "sustainability requirements" is increasing. Actually sell-side analysts are increasingly referring to ESG, for example in the context of mergers, when a "dirtier" company is bought by a "cleaner" one, with a negative impact on the overall carbon performance/risk.[14]

Follow-up questions:

- Can we confirm, in a representative survey, the dominant user role of Fund Managers as main users of ESG data?
- Can we confirm the increasing positive attitude toward the importance and business case for considering ESG-data?
- In how far do the specific ESG data/information requirements differ between functions/departments?
- Can we quantify the share of assets subject to different "sustainability requirements" and how it changes over time?

[14] Insights from a corresponding sell-side analyst report were kindly shared with the authors by Jochen Fischer at Sanford C.Bernstein on 11 April 2019 (Venkateswaran, Menon and Becker, 2019)

ESG data types

No single class/type of data stands out as being more important than others are, but it may be noteworthy that forward-looking climate transition risk assessment features in the top group (57%). One participating portfolio manager mentioned that they are not looking on specific data points but on whether firms are reporting ESG and whether they are making an effort. In the context of forward-looking data, a participant pointed out that, due to a lack of availability, two-thirds of the assessments are based on static and ex-post data. It was emphasized that it has a positive effect when companies improve their forward-looking reporting. In this context, "greenwashing" would not work with investors. Furthermore, the Science Based Target Initiative was stated giving helpful insights that could be included in the score.

No single class/type of data stands out as being more important than others are, but it may be noteworthy that forward-looking climate transition risk assessment features in the top group (57%).

Follow-up questions:

- Can we establish (in a representative study) any variation between:
  - Different data users (institutions)?
  - Different data users (functional groups/departments)?
  - Different objects of analysis, I.e. das the relative importance and usefulness of different types of ESG data vary with the type of firm or its sector/country/size?

Materiality of carbon emissions

The set of questions about the materiality of carbon emissions were more specific and hence for some survey respondents more challenging to answer. The majority stated that carbon emissions are incorporated in their firm valuation models (47% or 7) while 27% (or four) said that it is not included. The rest did not know. The number one driver of the materiality of carbon emissions according to survey participants was climate regulation (9 out of 15 or 60%), followed by reputational risk (6 out of 15 or 40%). Among the only 7 out of 15 participants who answered the question "On which basis do you evaluate the carbon performance or risk of a firm?", the majority picked the fact that a firm discloses forward looking climate transition risk as an

The majority stated that carbon emissions are incorporated in their firm valuation models.

important factor (5 out of 7), followed by carbon performance relative to its peers and the firm's sector (i.e. whether it pertains to a carbon/energy intensive sector), selected by 4 out of 7.
On participant described that carbon emissions are indeed included in the firm valuation model and the materiality of this is driven by regulatory risks and CO_2 price risks. Further, sector affiliation also plays a role (energy/carbon intensive sectors) but carbon risk is also assessed and consider relevant for non-ETS sectors, as for reaching the Paris targets, also buildings, industry and transport needs to reduce emissions.

Follow-up questions:

- In how far does the presence of other relevant (or even directly disclosure related) national regulation (like the UK company act or the French "loi grenelle I and II" and "Art.173") affect the various transpositions of the NFRD and how do different regulatory regimes affect actual reporting practices and information asymmetry?
- On which data basis exactly are the carbon performance or risk of a firm being evaluated and what are the differences between different institutions/actors, like rating agencies, analysts, asset managers, etc.?

Further issues

When asked to weigh comparability against detail of firm level ESG information, 4 out of 15 gave an equal weight to both, while preferences for either more detail or more comparability were almost equally distributed.
In relation to the place of reporting ESG disclosures, the first preference was for a separate CSR report (60%), followed by website (53%), and integrated report (47%).
Finally, a set of two questions referred to smaller companies. Only 20% consider ESG information about smaller companies as important or very important, while the majority (40%) settled on medium importance (or score 3 of 5). 11 out of 15 respondents found that the ESG data situation of smaller companies is best described by "limited data availability". In the interviews there was also pictured a lack of clarity and some sense of uncertainty about ESG reporting when talking to medium and small companies. However, there would be still pressure for them; on the one hand from the business clients, which are themselves disclosing and demand clarity about the ESG risks in their supply chain; on the other hand, while currently there is an appreciation by investors that there is a transition period: being small will in the medium run not be sufficient to not report.

Follow-up questions:

- How important is the role of scope-3 reporting related pressure from (particularly) downstream clients?
- What would a proportionate reporting framework for smaller companies look like? What would be ESG risk filters/triggers that could be used to switch reporting requirements on/off depending on the risks?

Conclusions

Our objective was to assess, in a limited time frame, the non-financial reporting practice across the EU against the backdrop of the non-financial reporting directive (NFRD) and to qualitatively explore views from finance professionals about the use and usefulness of non-financial information (with a particular view to carbon and climate data).

The results of the various studies discussed here are not easily comparable, as they are using different definitions, scope and levels of aggregation. However, the variety of approaches is useful to inform the design of the required systematic assessment of reporting practices across all EU member states, which should be pursued by the European Commission. Some qualitative insights, which we found particularly relevant, have been taken from the review and are summarized here.

Regarding reporting quality, a survey across various European member states finds that only 20% of the 80 top-listed companies included a specific climate change policy section in their reports. 80% disclosed GHG emissions, 30% reported GHG targets. TCFD-aligned disclosure and climate-scenario analysis are still the exception and human-rights related disclosure turns out in various reviews of different national reporting practices to be least extensive and concrete. Some of the reviewed reports point out that effective disclosure is not just about indicators but also about context, which should be considered when evaluating disclosure quality and effectiveness.

The evidence on changes in reporting practice after the transposition of the NFRD are very sparse as of the writing of this review. Initial findings suggest little change in Germany and significant increases of non-financial reporting in Italy and Poland. In this respect, it must be outlined that different countries implement the directive differently and exemptions to the directive's scope and in particular the degree of precision in the reporting requirements differ significantly between EU member states.

60% of our (non-representative sample of) respondents consider ESG rating agencies as important data source for ESG data, a view that was confirmed in individual interviews. GRI and TCFD are confirmed as most useful reporting framework by 73-80% of the participants.

Key drivers for ESG data availability according to the participants are increased investor engagement, the NFRD and its non-binding guidelines and the TCFD recommendations.

Reputational risk is seen as number one driver (73%) of the demand for ESG information by investment professionals, followed by a range of other drivers which around 50% of participants considered important.

Asset management (Fund managers) are named by far the most frequently (80%) as main users of ESG/carbon data, while on the other hand all major firm functions mentioned in the survey are confirmed by between 20 and 47% of the respondent to also use it. The use of ESG data hence seems to be spread across firms' different departments/functions.

No single class/type of data stands out as being more important than others, but it may be noteworthy that forward looking climate transition risk assessment features in the top group (57%). The majority stated that carbon emissions are incorporated in their firm valuation models (47%).

The number one driver of the materiality of carbon emissions according to survey participants was climate regulation (9 out of 15 or 60%), followed by reputational risk (6 out of 15 or 40%). Only 20% consider ESG information about smaller companies as important or very important.
Due to the qualitative character of the survey, one key contribution consisted in the identification of the follow-up (research) questions, many of which will need to be addressed to inform up-coming policy decisions in the field of sustainable finance. The full list of follow-up questions (along with the survey) has been included in the Annex.

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Annex

Follow-up questions related to the findings of the survey and interviews

Data Sources, reporting frameworks and drivers of demand for and availability of ESG data

- Could a representative study confirm/reject the important role of ESG rating agencies?
- Which data sources are used by ESG rating agencies?
- Can GRI and TCFD be confirmed by user numbers as most useful reporting frameworks?
- How dynamically is the use of GRI and TCFD reporting formats evolving? Can this be linked to regulation?
- Does investor engagement differ between different types of institutions?
- Which role does ESG play in engagement?
- Can we measure the effects of investor engagement empirically?
- Can we confirm this individual observation about the increased interest by private clients in ESG reporting?
- What exactly is driving the recent boost of interest in and demand for considering ESG explicitly in investment decisions? Which (policy) measures could sustain this development?

Use of ESG data and importance of different types of ESG/carbon data

1. Can we confirm, in a representative survey, the dominant user role of Fund Managers as main users of ESG data?
2. Can we confirm the increasing positive attitude toward the importance and business case for considering ESG-data?
3. In how far do the specific ESG data/information requirements differ between functions/departments?
4. Can we quantify the share of assets subject to different "sustainability requirements" and how it changes over time?
5. Can we establish (in a representative study) any variation between:
6. Different data users (institutions)
7. Different data users (functional groups/departments)

8. Different objects of analysis, I.e. das the relative importance and usefulness of different types of ESG data vary with the type of firm or its sector/country/size?
9. In how far does the presence of other relevant (or even directly disclosure related) national regulation (like the UK company act or the French “loi grenelle I and II” and “Art.173”) affect the various transpositions of the NFRD and how do different regulatory regimes affect actual reporting practices and information asymmetry?
10. On which data basis exactly are the carbon performance or risk of a firm being evaluated and what are the differences between different institutions/actors, like rating agencies, analysts, asset managers, etc.?
11. How important is the role of scope-3 reporting related pressure from (particularly) downstream clients?
12. What would a proportionate reporting framework for smaller companies look like? What would be ESG risk filters/triggers that could be used to switch reporting requirements on/off depending on the risks?

Survey questions and results

Your function/position in your company

14 out of 15 people answered this question

1	ESG Specialist	4 / 29%
2	Other	4 / 29%
3	Strategy/Business Development	4 / 29%
4	Asset Management (Fund Manager)	2 / 14%
5	Senior Management	2 / 14%
6	Analyst	0 / 0%
7	Asset Management (Buy-Side Analysis)	0 / 0%
8	Engagement Specialist	0 / 0%
9	Investment Analysis (Sell-side Research)	0 / 0%
10	Risk Management	0 / 0%

Reporting and disclosure versus other sources for carbon/climate and ESG information – which sources do you use/consider most important?

15 out of 15 people answered this question

1	ESG rating agencies (e.g. ISS-ESG, MSCI, Sustainalytics etc.)	9 / 60%
2	Carbon/climate and ESG data from financial information provider (e.g. Bloomberg, MorningStar, ThomsonReuters etc.)	5 / 33%
3	Carbon/climate data from CDP	5 / 33%
4	ESG research provider (e.g. Carbon Delta, Carbon Tracker, IMUG etc.)	4 / 27%
5	Publicly disclosed qualitative data ("narrative reports")	4 / 27%
6	Other	2 / 13%
7	Publicly disclosed quantitative data	2 / 13%
8	Mainstream rating agencies (e.g. Fitch, Moody's, S&P etc.)	0 / 0%

Which reporting frameworks are most useful from your viewpoint?

15 out of 15 people answered this question

1	GRI (Global Reporting Initiative)	12 / 80%

2	TCFD (Task Force on Climate-related Financial Disclosures)	11 / 73%
3	CDP (formerly known as Carbon Disclosure Project)	2 / 13%
4	CDSB/SASB (Climate Disclosure Standards Board/Sustainability Accounting Standards Board)	1 / 7%

Which of the following drivers have contributed to improving the availability of relevant non-financial (carbon/climate and ESG) information from your viewpoint?

16 out of 15 people answered this question

1	Increased investor engagement	9 / 60%
2	Non-Financial Reporting Directive and the related non-binding guidelines	8 / 53%
3	TCFD recommendations	8 / 53%
4	EU Action Plan for sustainable growth (i.e. the "sustainable finance action plan")	5 / 33%
5	Pressure by civil society	5 / 33%
6	Improvement and increased availability of non-financial reporting frameworks	3 / 20%
7	National regulation like the UK corporate act or the French Loi Grenelle and Art. 173 of the energy transition law	0 / 0%

If your organisation's demand for non-financial (carbon/climate and ESG) information has increased in the past 15 years, what are the reasons?

16 out of 15 people answered this question

1	Reputational risk	11 / 73%
2	Client demands	8 / 53%
3	Decision by senior management	8 / 53%
4	Internal awareness of the materiality of climate/carbon and ESG information	8 / 53%
5	Increase of the actual materiality of carbon	7 / 47%
6	Regulation	7 / 47%
7	Trustee/Shareholder demands	7 / 47%
8	Increase of the actual materiality of other ESG factors	6 / 40%
9	Environmental regulation (minimum performance standards, phase-outs etc.)	3 / 20%
10	Carbon price (e.g. through a tax or an emissions trading system)	1 / 7%
11	It has not increased	0 / 0%

12	Litigation risk	0 / 0%

Who uses carbon/climate and ESG data in your firm?

15 out of 15 people answered this question

1	Asset Management (Fund Manager)	12 / 80%
2	Specialists within the organization (e.g. ESG team)	7 / 47%
3	Asset Management (Buy-side Analysis)	6 / 40%
4	Risk Management	6 / 40%
5	Strategy/Business Development	5 / 33%
6	Investment Analysis (Sell-side Research)	3 / 20%
7	Senior Management	3 / 20%
8	Not sure/I do not want to answer this question	1 / 7%

Which specific carbon/climate and ESG/sustainability related data do you find most useful?

14 out of 15 people answered this question

1	Environmental information	8 / 57%
2	Forward-looking climate transition risk assessment	8 / 57%
3	Governance information	8 / 57%
4	Social information	8 / 57%
5	Aggregate ESG scores	6 / 43%
6	Corporate's own GHG-emissions target (absolute or relative)	6 / 43%
7	GHG-emissions data (absolute or relative)	6 / 43%
8	Forward-looking physical risks from climate change	5 / 36%
9	Energy consumption (absolute or relative)	4 / 29%
10	Corporate's internal carbon-shadow price and documentation of its implications	2 / 14%
11	Not sure/I do not want to answer this question	1 / 7%

Do you/does your company integrate carbon emissions data in your firm valuation (models)?

15 out of 15 people answered this question

1	Yes	7 / 47%
2	I don't know	4 / 27%
3	No	4 / 27%

What exactly constitutes the materiality of carbon emissions?

15 out of 15 people answered this question

1	Climate regulation (minimum performance standards, phase-outs etc.)	9 / 60%
2	Reputational risks	6 / 40%
3	CO2 price risk	5 / 33%
4	General compliance cost with climate policy (like ETS, carbon taxes etc.)	4 / 27%
5	Not sure/I do not want to answer this question	2 / 13%
6	Other	1 / 7%
7	Litigation risks	0 / 0%

On which basis do you evaluate the carbon performance or risk of a firm?

15 out of 15 people answered this question

1	Not sure/I do not want to answer this question	8 / 53%
2	The fact that a firm discloses forward looking data on climate regulatory transition risks, in line with national and/or international climate targets	5 / 33%
3	Relative carbon emissions compared to sector peers	4 / 27%
4	Whether or not the firm pertains to a carbon/energy intensive sector	4 / 27%
5	The fact that a firm discloses GHG emissions data	3 / 20%
6	Forward looking assessment of climate regulatory transition risks	2 / 13%

Does any of the following factors have an influence on whether a firm becomes a constituent of a portfolio or is invested in?

11 out of 15 people answered this question

1	Quality (granularity, degree of detail, timing) of available carbon/climate and ESG data	6 / 55%
2	Availability of carbon/climate and ESG information	3 / 27%
3	Other	2 / 18%

4	Availability of sufficient benchmark/peer information	1 / 9%

What is more important for you:
comparability of carbon/climate and ESG data across firms or
detailed company-specific metrics and reporting?

15 out of 15 people answered this question

Average: 4.07

1	2	3	4	5	6	7

comparability — equally important — detailed

4	4 / 27%
2	3 / 20%
6	3 / 20%
1	2 / 13%
7	2 / 13%
5	1 / 7%

Where/how should a company report its carbon/climate and ESG disclosures?

15 out of 15 people answered this question

1	Separate Document (separate „special" Non-Financial-/CSR-Report)	9 / 60%
2	Website	8 / 53%
3	Integrated Report (ESG information fully integrated in the Management Report)	7 / 47%
4	Integrated Report (ESG information assembled in one dedicated chapter of the Management Report)	5 / 33%
5	Data providers (e.g. Bloomberg, FactSet, MorningStar, ThomsonReuters, etc.	3 / 20%
6	Analyst presentation	2 / 13%
7	Separate Document (as appendix to the Management Report)	2 / 13%

How important is carbon/climate and ESG data in case of smaller companies?

15 out of 15 people answered this question

Average: 2.73

0	1	2	3	4	5

not important — very important

3	6 / 40%
2	4 / 27%
1	2 / 13%
4	2 / 13%
5	1 / 7%

Which of the following statements best describes the situation for ESG data of smaller companies?

13 out of 15 people answered this question

1	Limited data availability	11 / 85%
2	Limited data quality	4 / 31%
3	Good data availability	1 / 8%
4	Other	1 / 8%
5	Good data quality	0 / 0%